

THE CHARTERED INSTITUTE OF TAXATION

ADVANCED TECHNICAL

Human Capital Taxes

May 2026

TIME ALLOWED

3 HOURS 30 MINUTES

- All workings should be shown and made to the nearest month and pound unless the question specifies otherwise.
- Candidates who answer any law elements in this paper in accordance with Scots law or Northern Ireland law should indicate this where relevant.
- Scots law candidates may provide answers referring to Land and Buildings Transaction Tax rather than Stamp Duty Land Tax.
- Unless otherwise required by the question, candidates may answer the question using Scottish Income Tax rates or Income Tax rates applying elsewhere in the UK.
- Unless otherwise indicated by the provision of additional information in the question, you may assume that 2025/26 legislation (including rates and allowances) continues to apply for 2026/27 and future years. Candidates answering by reference to more recently enacted legislation or tax cases will not be penalised.
- You must type your answer in the space on the screen as indicated by the Exam4 guidance.

1. Jeff is a US citizen and an employee of Pink Inc, a US resident company. On 1 January 2024 Jeff was seconded to its UK subsidiary, Pink Ltd, for a two year assignment.

Jeff is non-UK domiciled and had never been to or worked in the UK prior to his assignment. Jeff was considered UK tax resident from 1 January 2024 under the Statutory Residence Test and is expected to continue be UK tax resident until his departure from the UK.

During his assignment, he is paid a salary from Pink Ltd of £500,000, which is paid into a Jersey bank account. Jeff is also entitled to a bonus with respect to his and Pink Ltd's performance over the two-year assignment period.

For the first two months of the assignment, Jeff worked solely in the UK. Jeff then transitioned to an arrangement where he worked two days a week internationally and three days in the UK with non-working days and weekends spent in the UK. Pink Ltd do not track Jeff's business or personal travel day to day but are aware that this arrangement has been and will continue to be consistent.

On 1 October 2025 Pink Ltd and Jeff formally agreed to extend the assignment to 31 December 2027. Following this he intends to move back to the US. Pink Ltd incurred a cost of £1,000 to extend Jeff's visa to cover the extension which was treated as a business operating expense.

On 6 April 2026 Pink Ltd determined that a bonus of £700,000 was due in respect of Jeff's and Pink Ltd's performance over the original two-year assignment period.

Pink Ltd are aware that Jeff has engaged a UK tax consulting firm which has supported Jeff with his UK tax affairs since arrival, claiming the remittance basis of tax on his 2023/24 and 2024/25 tax returns.

To date, aside from the relocation allowance, all remuneration paid by Pink Ltd to Jeff has been subject in full to PAYE and Class 1 NIC.

Requirement:

- 1) **Explain with calculations any relief that Pink Ltd could apply via the payroll with respect to Jeff's position for the remainder of the assignment period.** (10)
- 2) **Explain the relevant employment tax and social security implications arising because of the assignment extension, along with any corrective actions that will need consideration historically. You should NOT discuss penalties.** (5)

Total (15)

An extract from the UK US Reciprocal agreement on social security is provided on the next page.

Extract from the Agreement on Social Security between the Government of the United Kingdom of Great Britain and Northern Ireland and the Government of the United States of America.

ARTICLE 4.

(1) Except as otherwise provided in this Part, a person employed within the territory of one of the Parties shall, with respect to that employment, be subject to the laws on coverage of only that Party. Where a person is subject only to the laws on coverage of the United Kingdom in accordance with this paragraph, those laws shall apply to him as if he were ordinarily resident in the territory of the United Kingdom.

(2) Where a person who is covered under the laws on coverage of one Party and is normally employed by an employer in the territory of that Party is sent by that employer to work in the territory of the other Party, the person shall be subject only to the laws on coverage of the former Party, as if he were employed in the territory of the former Party, provided that the period of work in the territory of the latter Party is not expected to exceed 5 years, or such longer period as may be agreed upon by the Competent Authorities in a particular case. This paragraph does not apply to employment as an officer or member of a crew on a ship or aircraft.

(3) A person who is covered under the laws on coverage of either Party with respect to self-employment shall be subject only to the laws on coverage of the Party in whose territory he ordinarily resides.

(4) Where a person is employed under the laws on coverage of one Party and self-employed under the laws on coverage of the other Party for the same activity, he shall be subject only to the laws on coverage of the Party in whose territory he ordinarily resides.

(5) A person who would otherwise be covered under the laws on coverage of both Parties with respect to employment as an officer or member of a crew on a ship or aircraft shall, in respect of that employment, be subject only to the laws on coverage of the United Kingdom if he ordinarily resides in the territory of the United Kingdom, and only to United States laws on coverage of the United Kingdom if he ordinarily resides in the territory of the United States.

(6) A person who ordinarily resides in the territory of the United Kingdom and who is not employed or self-employed shall be subject to the laws on coverage of only the United Kingdom with respect to social security contributions.

End of Question

2. Alinta is employed by Jedda Ltd, a UK resident company. Jedda Ltd has an Employee Benefit Trust (“EBT”) which holds shares in the company to provide share-based benefits to employees.

On 6 April 2020, Jedda Ltd granted Alinta a non-tax advantaged option to acquire shares in Jedda Ltd on the following terms:

- 1) Vesting on 5 April 2022, if a performance condition relating to Jedda Ltd’s profits was satisfied by that date.
- 2) Exercisable within three months of vesting at an exercise price of £nil.
- 3) Option to be satisfied by the transfer of shares by the EBT.
- 4) Shares to be sold to the EBT for no consideration if Alinta ceased to be employed by Jedda Ltd as a bad leaver (defined to include leaving Jedda Ltd to become employed by a competitor).

On 6 April 2020, the EBT set aside the shares that it would transfer to Alinta on exercise of the option. Alinta was UK resident in 2020/21 and worked all 230 of her workdays in the UK.

During the whole of 2021/22, Jedda Ltd seconded Alinta to work for its German subsidiary, to replace the current secondee, and she became German tax resident (and non-UK tax resident) for that tax year. She worked for Jedda Ltd in the UK on 23 of her 230 workdays in that tax year, carrying out reduced duties for a couple of days each month on UK projects for the UK team that she worked for before the secondment.

As Alinta had significant family and economic ties in Germany, she became resident in Germany for the purposes of the UK/EU Social Security Protocol 2020 during 2021/22.

The option vested on 5 April 2022 and, on 6 April 2022, Alinta returned to the UK. She became UK tax resident for 2022/23 and remained UK tax resident until the end of 2025/26.

On 1 June 2022, Alinta exercised the option and acquired shares in Jedda Ltd from the EBT. At this time her shares were worth £45,000 but would have been worth £50,000 if there had been no requirement to sell the shares on ceasing employment.

Also on 1 June 2022, Jedda Ltd’s parent company, Jedda Inc, granted Alinta a put option which gave her the right to require Jedda Inc to acquire her Jedda Ltd shares for a price based on a formula set out in the option.

She and Jedda Ltd made an election under s.431(1) ITEPA 2003 in respect of her Jedda Ltd shares on 17 June 2022.

On 1 June 2025, Alinta terminated her employment with Jedda Ltd as a good leaver, exercised her put option and sold her Jedda Ltd shares to Jedda Inc for £100,000, in accordance with the put option formula. At that time, the unrestricted market value of the shares was £80,000.

Requirement:

Explain the amounts liable to Income Tax and National Insurance, and Jedda Ltd’s employer compliance obligations, arising as a result of the above transactions. (20)

An extract from the UK/EU Social Security Protocol 2020 is provided on the next page.

Extract from the UK/EU Social Security Protocol 2020:

ARTICLE SSC.11 Detached workers 1. By way of derogation from Article SSC.10(3) and as a transitional measure in relation to the situation that existed before the entry into force of this Agreement, the following rules as regards the applicable legislation apply between the Member States listed in Category A of Annex SSC-8 and the United Kingdom: (a) a person who pursues an activity as an employed person in a State for an employer which normally carries out its activities there and who is sent by that employer to another State to perform work on that employer's behalf shall continue to be subject to the legislation of the first State, provided that: (i) the duration of such work does not exceed 24 months; and (ii) that person is not sent to replace another detached worker.

ARTICLE SSC.12 Pursuit of activities in two or more States 1. A person who normally pursues an activity as an employed person in one or more Member States as well as in the United Kingdom shall be subject to: (a) the legislation of the State of residence if that person pursues a substantial part of their activity in that State; or (b) if that person does not pursue a substantial part of their activity in the State of residence: (i) the legislation of the State in which the registered office or place of business of the undertaking or employer is situated if that person is employed by one undertaking or employer.

End of Question

3. Stoppa Ltd is a UK company with a subsidiary in Italy. The company has frequent secondments between entities, which fall into the following categories:

- 1) Category A: Employees are seconded for 12 months from the UK entity to the Italian entity and work duties will be performed wholly in Italy.
- 2) Category B: Employees are seconded for 36 months from the Italian entity to the UK entity and work duties will be performed wholly in the UK.

In both cases, employees are able to be accompanied by their spouse and/or children for the duration of the secondment if they choose.

The company would like to implement a secondment benefits policy to take advantage of tax reliefs and minimise reporting requirements, where possible, by providing the following items:

- 1) The cost of accommodation by contracting directly with local landlords up to a value of £2,000 per month where the individual travels by themselves and £3,000 per month where they are accompanied.
- 2) Flight costs between the UK and Italy for the employee and their family will be paid, initially by the employee, and subsequently reimbursed by the company. This will include journeys at the start and end of the secondment, and up to two return trips per month during the secondment.
- 3) Subsistence costs relating to grocery shopping and meals out for the duration of their secondment will be reimbursed, up to the value of £40 per day.
- 4) UK immigration and visa costs for category B secondees will be reimbursed.

All secondees are UK tax resident throughout the duration of their secondments.

Requirement:

Explain the UK tax and National Insurance treatment and reporting requirements of the proposed benefits and expenses including any available UK tax exemptions and reliefs.

(15)

4. Buzz UK Ltd is a UK company. It has a subsidiary in the Republic of Ireland, Buzz Ireland Ltd. Jo, an Irish citizen, was employed by Buzz Ireland Ltd from 2 March 2015 to 18 March 2025.

On 1 October 2024, Jo was seconded to work in Buzz Ireland Ltd's UK branch (not replacing another secondee), with the branch bearing the cost of her earnings during the secondment. As the UK branch rarely had secondees, it did not have an Appendix 4 agreement or apply for any special PAYE code for such secondees as it had. Jo returned to Ireland on 21 October 2024. She worked on each day of her secondment (including the days of arrival and departure), except for two days' rest.

On 1 January 2025, Buzz UK Ltd offered her a permanent, full-time job based wholly in the UK. Jo travelled to the UK with her spouse on 12 January 2025 to look for a house near to her new workplace in west London and returned to Ireland on 18 January 2025. She started this job on 19 March 2025 and relocated to west London from the Republic of Ireland on that date. Before 19 March 2025, the visit in January 2025 and the earlier secondment were Jo's only visits to the UK since summer holidays as a child.

Jo spent significantly more than 183 days in the UK in 2025/26.

On 22 April 2025 (except as otherwise stated), Buzz UK Ltd provided the following payments or benefits to Jo as part of a relocation package:

- 1) Reimbursement of £3,000 for return flights and hotel accommodation for Jo and her spouse to visit west London in January 2025, £300 for a return train journey from London to Liverpool to attend a home exhibition event and £600 for costs incurred on meals and taxis whilst house hunting in west London.
- 2) Reimbursement of £6,000 of legal and estate agent's fees for selling Jo's house in Ireland on 21 March 2025.
- 3) Reimbursement of £500 shipping costs for moving furniture and other possessions from Ireland to Jo's new UK home.
- 4) Reimbursement of £2,500 rent for furnished accommodation from Jo's and her spouse's arrival in the UK on 19 March 2025 until 18 April 2025, when they moved into their new home, which Jo purchased herself.
- 5) Reimbursement on 5 May 2025 of £1,500 cost of rewiring the kitchen in the new home.
- 6) Buzz UK Ltd gifted Jo a painting worth £2,200 on 1 May 2025 to decorate her new house. The painting cost the company £5,000 six years ago and had been hanging in the company's reception ever since.

On 1 June 2025, Buzz Ireland Ltd decided to pay a bonus to staff for the year ended 31 December 2024 and, on 28 June 2025, Jo received her share of that bonus (equivalent to £25,000). She worked for Buzz Ireland Ltd for 240 days during the year ended 31 December 2024.

Requirement:

Explain the UK employment tax and National Insurance treatment and employer reporting requirements of each of the payments made and benefits provided in 2025/26 to Jo and her spouse by Buzz Ireland Ltd and Buzz UK Ltd. You can assume that all requirements were done on time and that the UK's social security arrangements with Ireland are the same as with the rest of the EU. (20)

An extract from the UK/EU Social Security Protocol 2020 is provided following Question 2.

End of Question

5. Until 31 October 2025, Arno Ltd, a UK resident company, had a wholly owned subsidiary, Antonfin Ltd, which is a UK resident stockbroker. On 31 October 2025, Arno Ltd sold Antonfin Ltd to a third party.

Hugo is employed by Antonfin Ltd and uses his employer's brokerage department to make some personal investments. As an employee, Hugo pays only 25% of the amount payable by a client for the brokerage service. Unfortunately, on 30 June 2025, due to a misunderstanding, Hugo lost a significant sum of money on a share sale. He accused Antonfin's brokerage department of negligence and sought financial compensation (£500,000). Antonfin Ltd intended to defend itself against Hugo's claim for compensation, as it did not agree that its brokerage department had been negligent. However, Arno Ltd was seeking a buyer for Antonfin Ltd and did not want the contingent liability to Hugo to hinder the sale negotiations. It offered to issue some of its own shares to Hugo of a value equal to his claim for compensation. Hugo refused the offer, as he did not want shares. Knowing that Hugo is a wine lover, Arno Ltd then offered Hugo two bottles of wine with a market value of £50,000, to induce him to accept the offer of compensation in the form of Arno Ltd shares. Arno Ltd also promised Hugo that, if the transfer of the wine to him was liable to tax, it would pay him an amount which, after deduction of any tax on the payment, was equal to the tax on the transfer to him of the wine. Arno Ltd offered to provide this inducement solely because it wanted to prevent a contingent liability in Antonfin Ltd hindering the sale negotiations. Hugo agreed to accept Arno Ltd's revised offer. On 31 July 2025, Hugo was issued shares in Arno Ltd worth £500,000 and received the two bottles of wine from Arno Ltd. Arno Ltd recharged £50,000 to Antonfin Ltd.

Sofia was the founder and majority shareholder of Arno Ltd. Twelve years' ago, Sofia experienced personal difficulties and Arno Ltd's business suffered and neared insolvency. Sofia was assisted through this period by the dedication and exceptional work done by Robert, her Head of Operations, and he ensured that the business recovered. Robert retired 10 years' ago. On 10 December 2025, Sofia sold Arno Ltd for a very substantial sum. She remembered the vital role played by Robert and wished to give him a significant amount out of the sale proceeds of Arno Ltd in recognition of his personal qualities, his personal support to her in the past and his contribution to saving the business from bankruptcy and returning it to prosperity. Sofia discussed her proposal with Arno Ltd's new directors and with Robert. The directors were in favour of the proposal and, accordingly, on 20 December 2025, Sofia proceeded to make the payment to Robert. As she was, by then, non-UK resident and, therefore, outside the scope of PAYE, she made the payment with no deductions.

Requirement:

Explain the employment tax and National Insurance implications of the above matters and the employer obligations to which they give rise. (15)

You are NOT required to discuss penalties.

6. Sunshine Shores Ltd is a Scottish business with offices in Edinburgh and Glasgow. During 2025/26, the company had 100 employees all based in Scotland who are UK tax resident, Scottish taxpayers, and subject to UK National Insurance. The workforce consisted of:

- 1) 30 associates who earned £30,000 per year.
- 2) 45 managers who earned £65,000 per year.
- 3) 25 senior managers who earned £135,000 per year.

During 2025/26, the company provided the following benefits and expenses to its employees:

- 1) The annual summer party attended by all 100 employees plus 75 of their guests. The function cost £12,500 plus VAT at 20% and £10,100 plus VAT at 20% for overnight accommodation.
- 2) A party held in October 2025 to celebrate the company's 50th anniversary. All staff were invited however it was attended by 25 associates, 30 managers and 20 senior managers. The total cost of the party was £8,750 plus VAT at 20%.
- 3) A festive hamper for each employee in December 2025. Each hamper was worth £100 but the company received a bulk order discount of £25 per hamper.
- 4) Private medical insurance provided to all employees at a cost of £25 per employee per month.
- 5) £2,000 for tax return preparation costs for each of three senior managers.
- 6) Easter eggs for all employees costing £20 each.
- 7) High street vouchers for £25 provided to the 30 associates for their hard work in the prior financial year.
- 8) Custom jewellery worth £1,100 each provided to four senior managers as a reward for their 30 years of service to the company.

Where possible, Sunshine Shores Ltd would like to settle any UK tax and NIC arising on the above benefits via a PAYE Settlement Agreement.

Requirement:

- 1) **Explain the tax treatment of each of the benefits and expenses provided.** (8)
- 2) **Prepare the 2025/26 PAYE Settlement Agreement calculation.** (7)

Total (15)